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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, July 15

NIKKEI (Page 2) (Full)
July 16, 2008

09:22

Handed letter of recommendation to a candidate-to-be for Gifu gubernatorial election at LDP headquarters, attended by Secretary General Ibuki, Election Strategy Council Chairman Koga, and Deputy Secretary General Hosoda. Attended LDP executive meeting.

10:02

Attended at Kantei cabinet meeting and Taskforce to Promote Reform of the Civil Servant System. Internal Affairs Minister Masuda remained.

11:12

Met with Space Development Minister Kishida, joined by Deputy Chief Cabinet Secretary Saka. Attended later Defense Ministry Reform

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Council meeting.

12:05

Met with Cabinet Intelligence Director Mitani, followed by Chief Cabinet Secretary Machimura.

13:59

Met with Lower House member Hosei Norota, followed by former Foreign Minister Nakayama.

14:34

Met with Finance Minister Nukaga, Vice Minister Sugita and Budget Bureau Director General Tango.

15:54

Reported to the Emperor in private at the Imperial Palace.

17:16

Met at Kantei with Diet Affairs Committee Chairman Oshima and New Komeito Diet Affairs Committee Chairman Urushibara, attended by Machimura.

18:01

Met with Foreign Minister Koumura, Nukaga, Agriculture Minister Wakabayashi and METI Minister Amari. Met afterwards with Consumer Administration Promotion Minister Kishida and Machimura. Machimura remained.

19:29

Met with Vice Administrative Foreign Minister Yabunaka, Deputy Foreign Minister Sasae and Asian and Oceanian Affairs Bureau Director General Saiki.

20:34

Returned to his official residence.

4) Cabinet shuffle likely on July 28

SANKEI (Page 1) (Full)
July 16, 2008

Prime Minister Fukuda made up his mind yesterday to shuffle his cabinet for the first time since coming into office. The Group of Eight (G-8) summit he hosted at Lake Toya in Hokkaido is over now, and he has come to take a break in policy implementation. Fukuda judged that it would be better to exercise his power to shuffle personnel so as to keep his influence over his ruling Liberal Democratic Party. This decision is based on his plan to convene an extraordinary Diet session in late August.

This January and April, some LDP heavyweights voiced expectations that Fukuda would shuffle his cabinet. However, Fukuda, according to one of his aides, gave priority to continuing policies. He has therefore retained most of his predecessor Abe's cabinet.

After the G-8 summit, however, there have been calls from within the

LDP for a cabinet shuffle. Fukuda himself was cautious about shuffling his cabinet. However, Fukuda, partly because of pressure from the LDP, seems to have judged that it would be better to shuffle his cabinet to show his influence.

Actually, some of the Fukuda cabinet's ministers and senior vice

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minister had plans to go abroad late this month, but Fukuda told them to abstain from doing so. As seen from this fact, Fukuda is now making preparations to shuffle his cabinet. When Fukuda shuffles his cabinet, the post of chief cabinet secretary and the post of health, labor and welfare minister, which is saddled with pension and healthcare issues, will be in focus.

Fukuda yesterday called in Finance Minister Fukushima Nukaga to his office and told him to work on a fiscal 2009 budget ceiling in preparation for cabinet approval late this month. One LDP executive said the LDP was coordinating to schedule this cabinet approval for July 29. Within the LDP, a cabinet shuffle is therefore expected to take place on July 30. In August, however, Fukuda will attend the opening ceremony of the Beijing Olympics. In addition, he will convene an extra Diet session. Given this schedule, Fukuda is highly likely to shuffle his cabinet on July 28.

5) Speculation rife that Prime Minister Fukuda may prepare for cabinet shuffle during six-day summer vacation

ASAHI (Page 4) (Full)
July 16, 2008

Prime Minister Yasuo Fukuda starts his summer vacation today as he turns 72. While resting from the Group of Eight Hokkaido Toyako Summit, he will likely consider how to manage the upcoming extraordinary Diet session, as well as his administration this fall. Since it is unusual for a prime minister to take a summer vacation in July, there is speculation that he may be preparing for a cabinet shuffle.

Fukuda will be on vacation until July 21. He is expected to stay either at his official residence or his private residence in Nozawa, Tokyo. He has no plans to go to any place far. It is the first time for him to take a vacation since he assumed office. He told reporters yesterday: "Kantei staff members have no time to rest. I hope they, too, will enjoy their breaks. I was told that I should not show up here."

One ruling coalition member said: "He may shuffle the cabinet after the summer vacation." Asked about this point, Fukuda just said: "What should I do? Let me think it."

For Fukuda, the six-day summer vacation will likely be but a brief respite, since he will have to compile in late July budgetary request guidelines for fiscal 2009, as well as a set of five policy measures, including measures to support child-rearing.

6) Fukuda coordinating views on Diet schedule with LDP, New Komeito Diet Affairs Committee chairmen; Focus of attention on possibility of cabinet shuffle

MAINICHI (Page 5) (Full)
July 16, 2008

Prime Minister Yasuo Fukuda called in the Diet Affairs Committee chairmen of the Liberal Democratic Party (LDP) and the New Komeito, Tadamori Oshima and Yoshio Urushibara, to his official residence yesterday to start coordination on an opening date for the extraordinary Diet session and other details. Learning that Fukuda had asked for their views about a Diet schedule just before his summer vacation, a senior LDP member speculated that "the prime

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minister may be thoroughly considering during the vacation the possibility of a cabinet shuffle." Asked about a shuffle of the

cabinet, Fukuda has repeated the statement about "a clean slate." The focus of attention is on what decision Fukuda will come up with at the end of his vacation.

The meeting lasted for about an hour, with Chief Cabinet Secretary Nobutaka Machimura also present.

Oshima said: "If you decide to shuffle the cabinet before the extraordinary Diet session opens, it is necessary to give enough time for new cabinet members to be able to give satisfactory Diet replies." While keeping in mind the possibility of the session opening in late August, Oshima indicated that the shuffle at the latest would be carried out in early August.

The prime minister, though, made no clear-cut reply, shopping short of clarifying whether he intends to shuffle the cabinet or not.

On key bills that should be deliberated on in the extraordinary Diet session, Oshima cited a bill to extend the new antiterrorism special measures law, which expires next January, and a bill amending the Labor Standards Law, which has been carried over from the earlier regular Diet session. He then stressed: "A conclusion must be reached in the extraordinary Diet session."

Fukuda replied: "I would like to give them my consideration now." He indicated that he would meet New Komeito President Akihiro Ota and make final coordination on details, including the opening day of the extraordinary Diet session.

7) Takeshima issue casts pall over Fukuda diplomacy; Issue might take toll on Japan-China-ROK summit and Fukuda's visit to ROK

NIKKEI (Page 2) (Abridged)
July 16, 2008

The confrontation between Japan and South Korea over Takeshima, a group of islets known as Dokdo in South Korea, might have a negative impact on the two countries' diplomatic timetables. A gloomy outlook hangs over such events as a Japan-ROK foreign ministerial expected to take place on the sidelines of the ASEAN foreign ministerial in Singapore next week and a Japan-ROK-China summit to be held in Tokyo in September. Prime Minister Yasuo Fukuda is likely to find it difficult to respond to those events.

According to South Korea, South Korean Ambassador to Japan Kwon Chul Hyun called on Vice Foreign Minister Mitoji Yabunaka at his ministry yesterday and told him: "It has become difficult to extend proactive cooperation in the international scene. It is unknown how much the South Korean people will welcome a visit to Japan in September by President Lee Myung Bak to attend the ROK-China-Japan summit."

The bilateral confrontation was sparked by a new Japanese teaching manual that mentioned the Takeshima issue for the first time. Ambassador Kwon returned to South Korea temporarily last night in compliance with an order from his government.

The governments of Japan and South Korea have joined efforts at a variety of international conferences, including the six-party talks on North Korea's denuclearization. Ambassador Kwon's statement revealed that such cooperative relations might stall.

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For instance, Japan, China and South Korea are scheduled to hold their first trilateral summit in September apart from other international conferences. President Lee's decision not to attend the trilateral summit could deal a serious blow to the Fukuda administration.

Japan is also exploring ways to hold a Japan-ROK foreign ministerial on the sidelines of the ASEAN foreign ministerial to be held in Singapore next week. There has been no clear response from South Korea to Japan's call for a bilateral foreign ministerial, according to a government source.

South Korea's response depends on public opinion to a certain

extent. Its stance is to monitor public opinion for the time being instead of taking hard-line steps right away, such as postponing a series of diplomatic events. The government intends to calmly watch the situation in South Korea for the time being.

Prime Minister Fukuda, who puts high priority on Asia, is also scheduled to make his second visit to South Korea this fall, following one in February to attend President Lee's inauguration. According to South Korea, Ambassador Kwon also told Vice Foreign Minister Yabunaka: "It is unknown if the South Korean public will truly welcome Prime Minister Fukuda's visit to South Korea."

8) South Korean ambassador temporarily returns home in protest against Takeshima reference in teaching manual for middle schools

YOMIURI (Page 2) (Excerpts)
July 16, 2008

The Japanese government's decision to include in a teaching manual for middle schools reference to the Takeshima islets as Japan's territory has created a row between Japan and South Korea that continues to grow. Acting on instructions from his home government, Ambassador to Japan Kwon Chul Hyun returned home yesterday in protest of Japan's decision. This is the first time in about seven years for a South Korean ambassador to be recalled due to an issue that could sour bilateral ties. The Japanese government is wary that a prolonging of the problem could adversely affect a trilateral summit meeting of Japan, China, and South Korea scheduled for September in Japan, as well as cooperation between Japan and South Korea in dealing with North Korea.

In criticizing the Japanese government, Ambassador Kwon told reporters in a strong tone at Haneda Airport: "I won't easily come back to Japan. I am greatly disappointed. Japan is really a nation close geographically but distant politically,".

Before leaving Japan, Kwon visited the Foreign Ministry in the morning and met Administrative Vice Foreign Minister Mitoji Yabunaka. In the meeting, Kwon reiterated the South Korean government's position over the Takeshima issue.

Yabunaka said "The two countries should calmly deal with the differences in positions." He then called for a calm response so that the issue would not damage bilateral ties and that the two countries would move toward building "a new era for Japan-South Korea relations," as agreed on between the two countries.

9) Questions and answers on Takeshima issue

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NIKKEI (Page 2) (Abridges slightly)
July 16, 2008

Q: What is the origin of the confrontation between Japan and South Korea over the Takeshima islets, known as Dokdo in South Korea?

A: It all started with South Korean President Lee Seung Man's announcement in 1952 of the "Lee line" declaring unilateral maritime rights on the high seas including Takeshima. South Korea's coast guard has stationed personnel on the largest islet since 1954. The islets are now effectively under South Korea's control.

Q: What are the standpoints of the two countries?

A: Japan's standpoint is that it has sovereignty over the islets based on its effective control over them in the mid-17th century. In 1905, a cabinet decision was made to include the islets in Shimane Prefecture. But South Korea says that it has had sovereignty since before Japan claimed its sovereignty and that historical documents show that South Korea's sovereignty was established more than 200 years earlier than Japan's.

Q: Why are the two countries vying for the islets so fiercely?

A: Takeshima covers only an area of 0.2 square kilometers, which is

equivalent to the size of Tokyo's Hibiya Park. But the waters around the islets are good fishing grounds rich in squids, crabs and so on, and they are also connected with securing marine resources.

Q: Are the economic interests only at stake?

A: That is not all. In 1905 when Japan decided to include the islets in Shimane Prefecture, a second Japan-South Korea agreement was also concluded enabling Japan to deprive South Korea of its right to diplomacy as a protected state. The level of interest in South Korea is extremely high. People receive "Dokdo education" as a symbol of patriotism. In South Korea, the issue is often directly connected to nationalism.

10) Foreign Minister Koumura to visit Vietnam

YOMIURI (Page 4) (Full)
July 16, 2008

The Ministry of Foreign Affairs (MOFA) announced yesterday that Foreign Minister Masahiko Koumura will visit Singapore and Vietnam on July 21-26. In Singapore, Koumura is expected to attend a foreign ministerial of the Association of Southeast Asian Nations (ASEAN) Plus Three (Japan, China and South Korea), as well as a conference of the ASEAN Regional Forum (ARF) cabinet ministers. In Vietnam, he will serve as joint chair of a meeting on the 25th of the Japan-Vietnam Cooperation Committee. Since North Korea is a formal member of the ARF, there are moves to seek the holding of an informal foreign ministerial of the six-party countries on North Korea's nuclear in an ARF meeting on the 24th.

11) The economy is slowing further, says BOJ: Downward revision of GDP growth to 1.2 PERCENT

TOKYO SHIMBUN (Top Play) (Full)
July 16, 2008

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Bank of Japan (BOJ) Governor Masaaki Shirakawa during a press conference on July 15 held after the central bank's policy board meeting on monetary policy revised downward the domestic economic outlook, noting that the economy is slowing down due to slow growth in capital spending and consumer spending. Concerns about a downturn in the economy and price rises are mounting due to the steep rise in the prices of raw materials, such as crude oil. The BOJ is being pressed to implement even more difficult policy management.

The BOJ at its policy board meeting presented an interim review of the semi-annual Outlook for Economic Activity and Prices, released in April. In the interim review, the central bank lowered the forecast for growth in real gross domestic production (GDP) for fiscal 2008 from 1.5 PERCENT as projected in April to 1.2 PERCENT . It revised up its outlook for a rise in the consumer price index (CPI) to 1.8 PERCENT , up 0.7 points from the previous estimate. This is the first time for the bank to indicate the margin of revisions with numbers.

Alarmed about price hikes, starting with a rise in gas prices, Shirakawa expressed concern, "The CPI will continue to rise for the time being." However, regarding the future outlook, he maintained the basic scenario that the economy will continue sustainable growth, based on stable prices. He predicted that the economy will return to the mild growth track, although it could occur later than projected. He also estimated that prices rises will also slow gradually.

Concerning the flagging U.S. economy, Shirakawa expressed hopes that a package of assistance measures for two government-affiliated housing loan companies that the U.S. government announced on the 13th, would lead to the stabilization of the housing and financial markets. However, when those markets will recover remains unpredictable.

In order to determine a number of risks, the bank at the meeting unanimously decided to maintain the current monetary policy of

guiding the policy-related discretionary interest rates to 0.5 PERCENT a year.

12) Additional measures against surging crude oil prices before end of month, prime minister reveals: Fukuda caught on horns of dilemma with no fiscal resources available

TOKYO SHIMBUN (Page 2) (Excerpts)
July 16, 2008

Prime Minister Yasuo Fukuda yesterday evening revealed his plan to map out additional emergency measures before the end of the month with the aim of addressing the steep rise in crude oil prices. He noted, "The government adopted a set of measures in late June. However, there has been no change in the situation. If possible, I would like to take additional measures before the end of the month."

He made that remark in response to a question asked by reporters at the Prime Minister's Office (Kantei). Regarding the details of envisaged additional measures, the prime minister simply said, "I would like to adopt various measures. I would also like to undertake coordination with the parties."

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He indicated understanding to the suspension of operations the same day by fishermen all over the nation, saying, "I am fully aware that fishermen are suffering tremendously. This is an abnormal situation."

Fukuda revealed his plan to compile additional measures to address the soaring crude oil prices before the end of the month because he wanted to show the public appeal his stance of quickly helping embattled fishermen, who have suspended operations all over the country. In reality, however, there are no fiscal resources available for financing additional measures, including the compilation of a supplementary budget. The prime minister is facing a policy dilemma that fiscal conditions do not easily permit the implementation of his policy that shares the public's view.

At first, the prime minister had been negative toward taking additional measures, saying, "It is necessary to implement measures within the existing budget." He had been stressing a policy of tiding over the crisis with a set of emergency measures, which the government adopted on June 26.

The emergency measures included consideration for improving the fishing industry assistance fund (approximately 10 billion yen), including an increase in the amount of the fund to help fishermen purchase energy-efficient fishing boats. The package also included consideration for lowering highway tolls designed for the trucking industry, which is also suffering from the steep rise in gas prices.

However, those measures are just flexible application of existing projects earmarked in the budget, according to a government source. The fishermen's public appeal regarding their difficult situation has revealed that those measures are not giving them immediate relief.

The ruling parties also called for additional measures and the compilation of a supplementary budget. Under such circumstances, the prime minister had to veer toward considering additional measures.

13) Financial Services Agency: U.S. housing finance crisis is "not a fire on the other side of the river"; Minister orders survey to determine extent of U.S. mortgage securities Japan possesses

TOKYO SHIMBUN (Page 9) (Full)
July 16, 2008

Financial Services Minister Yoshimi Watanabe, meeting the press yesterday after a cabinet meeting, made this statement about the two troubled U.S. government-related housing finance corporations: "The government and private sectors of Japan and China possess a fair

amount (of related securities); it is not a fire on the other side of the river." The Financial Services Agency (FSA) plans to carry out a survey of domestic financial institutions to determine the extent of U.S. government agency securities issue by the two corporations they possess.

The U.S. government has announced already a rescue package for the two corporations that will include the injection of public money. On this point, Minister Watanabe gave the U.S. high marks, saying, "It was good that they made a swift decision."

FSA stated that as of June 2007, Japan's public and private sectors

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possessed approximately \$23 billion (or approximately 24 trillion yen) in U.S. government-related securities, including holdings other than the two corporations. It stressed, "We will heighten the alarm level."

With the two U.S. corporations in trouble, the prices of their shares on the market have plummeted, creating the possibility that the business conditions of domestic financial institutions also would be affected.

14) Government to establish system of registering rating companies in order to strengthen regulation of the sub-prime market and bring them on par with Europe and U.S.

TOKYO SHIMBUN (Page 9) (Abridged)
July 16, 2008

Financial Services Minister Watanabe, meeting with the press yesterday after a cabinet meeting, revealed that he is mulling public regulation of rating companies that have been showered with criticism in connection with the sub-prime loan problem. The ministry's financial advisory council would debate whether to create a registration system for rating companies and whether financial authorities would have inspection and monitoring rights over rating companies.

The collapse of market for sub-prime-related commercial commodities is seen as a cause of lowering of ratings of previously highly-rated commodities. The lack of transparency of the process of rating such commodities, coupled with the relation of the securities houses that sell commodities and the rating companies that receive service fees for their evaluations are seen as problematical.

The U.S.' Securities Exchange Commission (SEC) already has announced a new proposal that would include strengthening information disclosure of the process of rating. The EU early this month agreed to introduce a registration system.

15) LDP reluctant to free up road-related tax revenues for general expenditures

ASAHI (Page 4) (Excerpts)
July 16, 2008

The ruling parties yesterday set up an advisory panel to mull a plan to shift tax revenues earmarked for road construction and maintenance into the general spending account. Can the budget for road projects be cut? Will the ruling coalition really be able review the provisional tax rates system? Debate has begun four months after Prime Minister Yasuo Fukuda revealed his plan to free up revenues from the road-related taxes now used solely for road construction and maintenance and use the funds for general expenditures.

The advisory council meeting was attended by Liberal Democratic Party (LDP) and New Komeito policy research council and tax system panel members. In the first meeting held in the Diet building, there was an obvious gap between the two ruling parties.

One representative from the New Komeito, which has sought a 10 percent cut in the road-related budget, asserted in the meeting: "Unless the budget for road projects is slashed, we will disappoint

public expectations." The LDP, however, took a cautious stance, with one member saying: "There would be no change in demand for road projects."

Referring to the current provisional rates for gasoline and other road-related taxes, the New Komeito called for abolishing the provisional rates part of the automobile weight tax. However, LDP Policy Research Council Deputy Chairman Hiroyuki Sonoda stressed: "The purpose of discussion is not to reduce tax revenues."

The New Komeito intends to appeal its stance of prioritizing reforms to the public, with an eye on the next House of Representatives election. Although the New Komeito included a plan to cut the automobile weight tax in its manifesto (set of campaign pledges), it withdrew its plan last year in the process of coming up with a tax system reform outline, after meeting with a strong objection from the LDP. The New Komeito hopes to make the council, which was formed with the backing of Fukuda, a forum to display its political presence.

16) Government not to move Food Safety Commission to consumer agency to ensure neutrality

MAINICHI (Page 2) (Full)
July 16, 2008

The government decided yesterday that it would not move the Food Safety Commission (FSC), now in the Cabinet Office, to a consumer agency that will be set up in FY2009. The Council for Promoting Consumer Policy, led by Gakushuin University Professor Takeshi Sasaki, will formally adopt this policy in its meeting next week.

The government had discussed the idea of shifting the FSC to the consumer agency when it is launched.

But it decided not to move the FSC from the perspective of "ensuring the neutrality of the commission in evaluating the safety of food and pharmaceuticals from an objective, neutral and fair position, based on scientific knowledge," as said by a government source.

Prime Minister Yasuo Fukuda and Consumer Affairs Minister Fumio Kishida met at the Prime Minister's Office yesterday afternoon and affirmed this policy.

The consumer policy council on June 13 released its final report in which the panel proposed shifting 30 laws or ordinances to the consumer agency but noted that "discussion will be continued" on what to do about the FSC.

17) Political initiative eyed for Defense Ministry reform

SANKEI (Top play) (Abridged)
July 16, 2008

A government advisory panel reforming the Defense Ministry worked out a report yesterday and presented it to Prime Minister Yasuo Fukuda. The report proposes abolishing the Defense Ministry's defense counselor posts for bureaucrats and setting up advisory posts for political appointees to assist the defense minister. Specifically, the report recommends appointing a uniformed officer from the Self-Defense Forces to the Defense Ministry's internal bureau post of deputy director general for the Defense Policy Bureau

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and appointing a civilian official from the Defense Ministry's internal bureaus to the SDF post of deputy chief for the Joint Staff Office. The government will incorporate the report's recommended ideas in a Defense Ministry reform bill to be presented to the Diet in its ordinary session next year.

The government plans to overhaul the Defense Ministry for the first time since its establishment in 1954.

The advisory panel's report of recommendations came out in the wake of scandals involving the Defense Ministry and the Self-Defense Forces, such as a former administrative vice minister's bribery case over procurement and a Maritime Self-Defense Force Aegis vessel's collision with a fishing boat. The report suggests the need for the Defense Ministry to restructure its organization in order to comply with regulations and establish professionalism. It recommends both the prime minister's office and the Defense Ministry to strengthen their control functions.

In addition, the report also proposes abolishing the defense counselor system, which has been for some of the Defense Ministry's bureaucrats to monopolize and formulate defense policies. Instead, the report recommends setting up advisory posts for political appointees to assist the defense minister. In concrete terms, it proposes utilizing a defense conference of advisors under the political initiative with the participation of senior officials from the Defense Ministry's internal bureaus and uniformed officers from the SDF staff offices as the ministry's highest decision-making body. The idea of abolishing the defense counselor system is aimed at changing the superiority of civilian officials over SDF personnel and promoting personnel exchanges between civilian officials and SDF personnel.

Main points from the panel report

- ? Abolish the Defense Ministry's Operational Policy Bureau and integrate its functions of planning SDF operations into the SDF Joint Staff Office.
- ? Integrate the defense buildup sections of the Defense Ministry's internal bureaus and the Ground, Maritime, and Air Self-Defense Forces.
- ? Retain the Defense Ministry's internal bureaus and the GSDF, ASDF, and MSDF staff offices and promote exchanges between bureaucrats and SDF staff officers.
- ? Set up a security policy advisor post to assist the prime minister and strengthen the control functions of the prime minister's office.
- ? Abolish the defense counselor system and set up advisory posts to assist the defense minister.
- ? Give legal status to a defense conference as the highest decision-making body.

18) Reform council's report to strengthen command and control of Defense Minister, but amending the law will be difficult given the divided Diet

MAINICHI (Page 2) (Excerpts)
July 16, 2008

The report finalized on the 15th by the government's Defense Ministry Reform Council contains such main features as merging personnel from the internal bureaus (suits) and the uniformed

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services (uniforms) in order to improve ministry practices that have led to a series of incidents, and the strengthening of the command and control of the minister (a politician), by inserting leverage on the Defense Council, which is the highest advisory council in the ministry. The control tower function of the Prime Minister's Official Residence (Kantei) will be strengthened, as well.

However, the unification of the sectors that deal with enhancing defense capabilities has run into trouble, with some uniformed officers taking the view of constraining this effort and discussing it later. And a bill amending the law next regular session also will inevitably bog down due to the divided Diet.

CEKUTA